

Message Text

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ACTION EB-08

INFO OCT-01 AF-08 ISO-00 MMO-01 AID-05 CIAE-00 COME-00
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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
AGRE-00 INT-05 /082 W

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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 2224

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 2145/1

E.O. 11652: GDS

TAGS: EFIN ECRP EALR CG

SUBJ: CERP 0201; MORE ON THE GOZ'S 1977 BUDGET PLANS

REF: KINSHASA 1879

SUMMARY: FINANCE COMMISSIONER BOFOSSO HAS CONFIRMED PRESS REPORTS THAT

THE GOZ PLANS TO PEG 1977 EXPENDITURES AT 800 MILLION ZAIRES AND REVENUES AT 640 MILLION ZAIRES. REVENUES ARE TO BE BOOSTED BY NEW TAXES ON COFFEE AND PETROLEUM. REVENUE TARGETS APPEAR TO BE ATTAINABLE IF PROPOSED NEW TAXES ARE COLLECTED AND IF EXPORT PRODUCTION IMPROVES. IT WILL BE MOST DIFFICULT, HOWEVER, TO CONTAIN EXPENDITURES TO 800 MILLION ZAIRES--ESSENTIALLY THE 1976 LEVEL--IN THE FACE OF CONTINUED INFLATION, INCREASED DEBT SERVICE, AND CONTINUING WAGE PRESSURE AND THE NEED TO PURSUE ON-GOING DEVELOPMENT PROGRAMS. THE POLITICAL BUREAU HAS ESTABLISHED THREE COMMISSIONS TO OVERSEE THE SPENDING OF THE DEPT OF EDUCATION--AND MAY ESTABLISH ADDITIONAL COMMISSIONS TO OVERSEE OTHER DEPTS. IT WILL BE VERY DIFFICULT TO HOLD THE DEFICIT TO THE 160 MILLION ZAIRES NOW PROJECTED. END SUMMARY.

1. IN A MEETING WITH DEP ASST SECTY SEELYE AND BOELN, FINANCE COMMISSIONER
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BOFOSSO CONFIRMED THAT THE GOZ HAD AGREED TO TARGET 1977 EXPENDITURES AT 800 MILLION ZAIRE AND REVENUES AT 640 MILLION ZAIRES. THE OVERALL BUDGET DEFICIT WOULD THUS BE 160 MILLION ZAIRES, IN LINE WITH THE FIGURE SPECIFIED BY THE IMF.

2. BOFOSSO SAID THAT REVENUES WOULD BE BOOSTED BY NEW TAXES ON COFFEE AND PETROLEUM. AS PREVIOUSLY REPORTED, THE COFFEE EXPORT

TAX IS TO BE BOOSTED FROM 18 MAKUTA PER KILO TO 83 MAKUTA PER KILO, AN INCREASE THAT IF MAINTAINED FOR A FULL YEAR WOULD APPARENTLY INCREASE REVENUES BY AROUND 50 MILLION ZAIRES. DELAYS IN IMPLEMENTING THE COFFEE TAX WILL PROBABLY RESTRICT THE ADDED REVENUE CONTRIBUTED BY THE NEW TAX IN 1977 TO SOMETHING BELOW 50 MILLION ZAIRES SINCE SIGNIFICANT QUANTITIES ARE NORMALLY EXPORTED IN THE FIRST FEW MONTHS OF THE YEAR. BOFOSSO SAID THAT THE PROPOSED NEW PETROLEUM TAX WOULD REQUIRE A REINTERPRETATION, BUT NOT AN ABROGATION, OF THE EXISTING CONVENTION WITH GULF AND WOULD BRING NEW REVENUES OF 32 MILLION ZAIRES. GULF HAS MADE SOME STRONG REPRESENTATIONS ON THIS WITH FINANCE OFFICIALS AND HAS BEEN IN TOUCH WITH ITS CONSORTIUM PARTNERS. WE BELIEVE THAT GULF IS PREPARING TO MAKE A COUNTERPROPOSAL THAT WOULD INCREASE GOZ REVENUES FROM PETROLEUM, BUT BY AN AMOUNT MUCH LOWER THAN 32 MILLION ZAIRES. OVERALL BOFOSSO SAID THAT GOZ REVENUES WOULD COME FROM THE FOLLOWING SOURCES:

CUSTOMS	300.4 MILLION ZAIRES
INCOME/COMPANY TAXES	181.1 MILLION ZAIRES
EXCISE/TURNOVER TAXES	138 MILLION ZAIRES
OTHER	20 MILLION ZAIRES
TOTAL	620 MILLION ZAIRES

3. THESE REVENUE FIGURES DO NOT APPEAR TO BE UNATTAINABLE, PROVIDED THE GOZ SUCCEEDS IN IMPLEMENTING NEW TAXES AND MANAGES TO INCREASE EXPORT PRODUCTION. INCREASED EXPORT PRODUCTION CONTRIBUTES TO GOVERNMENT REVENUE IN THREE WAYS:

- A) INCREASED REVENUE FROM EXPORT TAXES,
 - B) INCREASED REVENUES FROM COMPANY INCOME TAX.
 - C) INCREASED FOREIGN EXCHANGE FOR IMPORTS WHICH INCREASES REVENUES
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FROM IMPORT TAXES.

IN THIS REGARD THE GOZ REVENUE ESTIMATES ARE BASED ON A COPPER EXPORT LEVEL OF 429,000 TONS AND AN AVERAGE PRICE OF 68 CENTS/LB. THIS IS CONSIDERABLY MORE CONSERVATIVE THAN THE EMBASSY'S EARLIER ASSUMPTION OF 485,000 TONS AT 70 CENTS/LB.

4. EXPENDITURES TARGETS WOULD APPEAR TO BE MORE DIFFICULT TO ADHERE TO. WE HAVE REPORTED THAT ACCORDING TO PRELIMINARY STATISTICS ORDINARY 1976 EXPENDITURES WERE ABOUT 756 MILLION ZAIRES. THE FINAL FIGURE MAY BE NEARER TO 800 MILLION ZAIRES AS A RESULT OF ARREARAGES AND OTHER EXPENDITURES. IN ESSENCE THEN, THE 1977

BUDGET WILL FREEZE THE OVERALL EXPENDITURES TO THEIR 1976 LEVEL.

THIS WILL BE MOST DIFFICULT FOR A NUMBER OF REASONS:

- A) PRICE INFLATION WILL CONTINUE TO ERODE THE REAL PURCHASING POWER OF BUDGET EXPENDITURES; BASED ON THE 160 MILLION ZAIRE DEFICIT, THE GOZ ESTIMATES A 30 PCT INFLATION RATE IN 1977. JUST TO MAINTAIN THE REAL PURCHASING POWER OF LAST YEAR, SPENDING WOULD

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ACTION EB-08

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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 2225

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 2145/2

HAVE TO RISE BY 30 PCT. A FREEZE ON NOMINAL SPENDING WOULD IMPLY A SIGNIFICANT FALL IN REAL GOVT SPENDING. FURTHERMORE, IT IS LIKELY THAT THE ACTUAL RATE OF INFLATION--WHICH EXCEEDED 80 PCT IN 1976--WILL SURPASS THE 30PCT LEVEL FORCAST BY BOFOSSO.

B) DEBT SERVICE: PAYMENTS WILL INCREASE: BOFOSSO SAID THAT THE DEBT SERVICE COMPONENT OF THE BUDGET WILL INCREASE TO 250 MILLION ZAIRES (31PCT OF PROJECTED TOTAL EXPENDITURES) IN 1977.

C) WAGE PRESSURE WILL CONTINUE: LAST YEAR TOTAL WAGE, PENSION AND SCHOLARSHIP PAYMENTS REACHED 243 MILLION ZAIRES. AS PRICES CONTINUE TO INCREASE, PRESSURE ON WAGES WILL GROW. ACCORDING TO NEWSPAPER REPORTS, ATTENTION IS BEING GIVEN TO RESTRICTING THE USE OF INDEXATION AGREEMENTS THAT AUTOMATICALLY RAISE WAGES AS PRICES INCREASE. IT IS KNOWN THAT SUCH AGREEMENTS HAVE BEEN IN FORCE IN SOME MINING AND INDUSTRIAL FIRMS AND HAVE UNDERCUT THE GOZ POLICY OF LIMITING SALARY INCREASES TO 20 PCT.

D) DEVELOPMENT EXPENDITURES MUST BE MAINTAINED: DEVELOPMENT EXPENDITURES HAVE FALLEN SHORT OF BUDGETED LEVELS FOR THE LAST TWO YEARS. NOTWITHSTANDING, THE GOZ'S COMMITMENT TO HOLD DOWN SPENDING ON NEW PROJECTS, THERE ARE MANY HIGH-PRIORITY ON-GOING PROJECTS WICH WILL REQUIRE LARGE GOZ BUDGET CONTRIBUTIONS THIS YEAR..FOR THE INGA SHABA PROJECT ALONE, GOZ WILL NEED TO PROVIDE 14-22 MILLION ZAIRES IN LOCAL CURRENCY CONTRIBUTIONS. OTHER IMPORTANT OUTLAYS WILL BE NEEDED TO SUPPORT PROJECTS IN TRANSPORT AND AGRICULTURE.

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5. IN THE MOST RECENT OF GOZ MEASURES TO TIGHTEN BUDGETARY CONTROL, THE POLITICAL BUREAU HAS REPORTEDLY DECIDED TO CREATE THREE COMMISSIONS TO CONTROL THE BUDGET OF THE DEPT OF EDUCATION WHICH HAS INCREASED FROM A BUDGETED LEVEL OF 98 MILLION ZAIRES IN 1976 TO 163 MILLION ZAIRES IN 1977. INCREASED SALARY EXPNDITURES ARE REPORTEDLY THE MAJOR FACTOR IN THE INCREASE IN EDUCATION BUDGET. ACCORDING TO PRESS, OTHER SUCH COMMISSIONS MAY BE ESTABLISHED TO OVERSEE THE SPENDING OF OTHER GOZ DEPTS. THE INFORMATION WE NOW HAVE SUGGESTS, HOWEVER, THAT IT WILL BE VERY DIFFICULT TO HOLD SPENDING TO THE TARGETED LEVELS.
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